

Mr. Heagy's U.S. History



Mini-Read #8 What to do about the Great Depression

By 1931, what had been a crash and a terrible recession was now clearly a depression. Had Calvin Coolidge run for another term and won it, his response to the depression would have been to do NOTHING. Coolidge Republicans believed that depressions were naturally occurring economic events. Like hurricanes, they came, devastated everything, passed on, and you recovered. There was nothing one could do about the occasional depression but live through it to the brighter economic days in the future.

Herbert Hoover was not quite a Coolidge Republican. He believed in the Coolidge Republican ideas of business being the core of America's existence, but Hoover was a trained engineer. He also believed that one could engineer a better mouse trap and that one could shape up the design of American business. When the Great Depression arrived, Hoover believed that its cause had been the problems European countries had in repaying their World War I debt to American banks. If the Europeans would pay their debt, American banks would be solid. If American banks were solid, American business would have the credit at banks it needed to deal with the down turn in the economy. Even after Roosevelt was elected president, Hoover tried to trick the president-elect into participating in negotiations to get the Europeans back at paying their war debts. Roosevelt was far too clever to fall for this trick. He said "no thank you" and allowed Hoover plans to go nowhere.

Roosevelt and his followers had a different idea about the Great Depression. They accepted the idea of a British economist, John Maynard Keynes that the depression was caused because not enough people had enough money to buy goods. Because they didn't buy goods, factories stopped making good putting more people out of work. Now more people didn't have money to buy goods so more factories shut down.

Keynes said, the problem was there was not enough money in the hands of consumers to keep business going. If people didn't have money to spend and keep business going, could government spend much more money and keep business going? Could government come up with ways to employ people so they did have money to spend and keep business going? Keynes would say yes. The New Deal would be built on the idea of the government spending money to "prime the pump" of the economy. Once businesses were making enough, they would start hiring. That would put more money in the pockets of the workers who would spend it, create more demand for products, and set business to hiring more people to meet the new-elevated demand.

Hoover and the out-of-office Republicans railed against Roosevelt, his make-work schemes, and his massive spending. In a book Hoover finished writing in 1964, he claimed Roosevelt created the Great Depression with his spending and tinkering with the economy. For those who believe in pure market-based economics, this has become the story of the Great Depression. For millions of Americans in the 1930s, the New Deal was viewed as their economic salvation. They saw nothing wrong with what Roosevelt did to put money in their pockets and food in their family's mouths.